

**VERMONT PENSION INVESTMENT COMMITTEE**  
**June 28, 2011**

**VPIC Members Present:**

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2011– via telephone

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

**VPIC Member(s) Absent:**

NONE

**VPIC Alternate Members Present:**

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

**VPIC Alternate Member(s) Absent:**

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

**Also attending:**

Members of Vermont Municipal Employees' Retirement System - via telephone

Steve Wisloski, Deputy State Treasurer

Matt Considine, CFA, Director of Investments

Jaye Pershing Johnson, Assistant Attorney General

Richard M. Charlton, Chris Levell, and Doug Moseley, NEPC LLC

Joseph Miletich and Shaun Flavin, Mellon Capital Management

Cynthia Webster, Director of Retirement Policy and Outreach

David Driscoll, Buck Consultants, LLC – via telephone

Monica Chiren, Clerk

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, June 28, 2011 meeting to order at 8:35 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

The Chair of the Vermont Municipal Employees' Retirement System (VMERS) also called his board meeting to order.

**ITEM 1:      Joint Meeting of VPIC and VMERS Board to Discuss/Approve  
Proposed Changes to the Actuarial Assumed Rate of Return**

**Ms. Pearce motioned and Mr. Jeffrey seconded, the adoption of the Select and Ultimate interest rate assumption to determine the annual required pension contribution for fiscal year 2012 and going forward for VMERS. Mr. Jeffrey voted nay. The motion carried.**

The VMERS board unanimously approved the motion for their system, and adjourned their meeting at 8:37 a.m.

(Mr. Driscoll, Ms. Webster and Mr. Quinn left the meeting at this time.)

**ITEM 2:      Agenda Approval, Announcements, and Minutes of May 24, 2011  
Regular Meeting**

Mr. Rauh announced that the two representatives from State Street were not appearing today. Mr. Rauh indicated more information would be provided on that topic at a later point. Mr. Moseley from NEPC was welcomed by the Committee. The Committee was advised that Kevin Kondry resigned his position at NEPC to take a position at Permal, and that Doug Moseley would be Kevin's replacement.

**The Committee approved the Agenda.**

Mr. Johannesen asked the Treasurer's Office to analyze the portfolio's exposure to European banks, given ongoing solvency concerns in Greece and other Euro area economies.

**On a motion by Mr. Altemus, seconded by Mr. Jeffrey, the Committee unanimously approved the minutes of the May 24, 2011 Regular Meeting.**

**ITEM 3:      Review of Contracts**

*The Committee entered executive session to discuss a contract matter at 8:42 a.m., and exited at 9:25 a.m.*

**On a motion by Ms. Pearce, seconded by Mr. Johannesen, the Committee unanimously agreed to extend its current contract with State Street for custodial services until December 31, 2011.**

**On a motion by Ms. Pearce, seconded by Mr. Jeffrey, the Committee unanimously agreed to authorize a RFP process in order to obtain firms who will provide custodial and related services.**

The consensus of the committee was to invite State Street to participate in the RFP process.

**ITEM 4:      Review May 2011 Flash Report**

Mr. Moseley reviewed the May 2011 flash report with the Committee. Mr. Moseley indicated the three composites were down 0.4% for the month of May, which started out strong, but the second half of May ended weak. The fiscal year-to-date returns were as follows: 21.2% for VSTRS, 21.9% for VSERS, 21.7% for VMERS and 21.7% for BERS, in all cases gross of fees. There was a discussion about asset class performance.

**Mr. Considine agreed to work with Mr. Moseley and Mr. Levell to explore how the overall portfolio behaves in different market conditions.**

Mr. Charlton discussed the gradations of services offered by NEPC, and his belief there was not a conflict created for VPIC. Mr. Rauh indicated this was a worthwhile topic, and one that should be discussed further.

**Mr. Rauh requested that NEPC provide a list of their services and associated fees. Ms. Pershing Johnson also requested a list of any entities that regulate NEPC.**

(Mr. Gaffney entered the meeting at 9:45 a.m.)

**ITEM 5:      Review of Managers on NEPC's Watch List**

Mr. Levell reported that Mellon, Acadian and Post Advisory remain on NEPC's watch list due to recent personnel departures. Mr. Levell indicated Mellon will be presenting this afternoon. NEPC indicated no action is contemplated at this time. The Committee discussed the three stages of the watch list. Mr. Wisloski requested a cover sheet indicating what the gradations are and an indication of how long they have been on the watch list.

**Mr. Wisloski requested that NEPC provide a cover sheet indicating what the gradations are and an indication of how long they have been on the watch list.**

*The Committee took a brief recess from 10:07 a.m. to 10:16 a.m.*

(Mr. Hooper entered the meeting at 10:13 a.m.)

**ITEM 6:      Risk Management**

The Committee discussed a variety of risk management topics, including the special risks posed by market volatility for VSERS and VSTRS that are in a decumulation phase where payments to retired members exceed pension contributions. The Committee reviewed a *Portfolio Factor Analysis* prepared by NEPC. Ms. Pearce led a discussion concerning the *Treasury Risk Management Committee Overview*, and the risk analysis for pension investment valuation and pricing. The Committee discussed a variety of operational risk management issues. Mr. Wisloski indicated he would report back to the

Committee once the Treasurer's Office Risk Management Committee formalizes a risk management framework for VPIC investments.

*The Committee took a lunch recess from 12:05 p.m. to 12:45 p.m.*

**ITEM 7: Mellon Capital Presentation**

Mr. Levell outlined briefly the reason for the presentation by Mellon Capital.

(Mr. Miletich and Mr. Flavin entered the meeting.)

Mr. Flavin discussed the senior management changes and how the changes would not affect Mellon's ability to continue to execute its strategy.

Mr. Miletich discussed the Global Alpha I product's strategy and performance. Mr. Miletich also discussed the Global Expanded Alpha I product's strategy, and their reasoning for wanting to add it to the VPIC portfolio. The Committee's questions were answered by Mr. Miletich and Mr. Flavin

(Mr. Miletich and Mr. Flavin left the meeting.)

*The Committee took a brief recess from 2:10 p.m. to 2:22 p.m.*

(Mr. Mackey left the meeting.)

Mr. Levell reviewed the Mellon Capital presentation with the Committee members. NEPC's recommendation was to move to the Global Expanded Alpha I product because it was less volatile and increased the alpha potential.

**On a motion by Mr. Hooper, seconded by Mr. Jeffrey, the Committee discussed whether to adopt the recommendation of NEPC to shift to the new Global Expanded Alpha I product as presented by Mellon Capital.**

**After further discussion it was the consensus of the Committee to table the above motion at this time.**

**ITEM 8: Risk Parity Manager Search**

NEPC conducted a search for a second risk parity manager to complement the current VPIC allocation of 5% to AQR's Global Risk Premium Fund. NEPC presented six potential managers for the Committee's consideration. The Committee discussed all six managers at length.

(Mr. Hooper left the meeting at 3:55 p.m.)

**On a motion by Mr. Jeffrey, seconded by Ms. Pearce, the Committee moved to invite Putnam, PIMCO and PanAgora to make presentations at the July meeting relative to risk parity with the understanding AQR is also an option for adding more money to the risk parity.**

**ITEM 9: VPIC Economic/Financial Market Dashboard**

The Committee discussed the Economic and Financial Markets Dashboard and, based upon no new surprising data, set its 12-month forward expectation for U.S. GDP at 2.2%, and for CPI at 3.0%.

**ITEM 10: Director of Investments Report**

Mr. Considine and Mr. Wisloski reviewed the results of the consultant hired to examine the costs of foreign currency transactions incurred on trades conducted by the custodian from 2006-2010. Mr. Considine indicated the AG's office has contacted T. Rowe Price relative to the suit by Deutsche Bank re: Tribune stock. Mr. Considine indicated the numbers are going in the right direction concerning the securities lending update, and that the VPIC's "underwater" amount remained flat at \$1.7 million. Mr. Considine indicated as of June 30<sup>th</sup> VPIC's asset allocation is projected to be 36.4% equities, 37.1% fixed income, 11.0% alternatives, and 15.4% multi-strategy, compared to target allocations of 36%, 37%, 12% and 15% respectively. VPIC's assets under management decreased to \$3.424 billion as of May 31, 2011.

**ITEM 11: Other or New Business**

The Committee discussed an article relative to GASB changes. Ms. Pearce indicated she is discussing two issues with David Driscoll concerning the difference in funding and difference in financial reporting.

**ITEM 12: Adjournment**

**On a motion from Mr. Jeffrey, seconded by Mr. Johannesen, the Committee unanimously voted to adjourn at 4:55 p.m.**

Respectfully submitted,

Monica Chiren, Clerk